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**INTERNATIONAL HARVESTER  
CANADA**  
Annual Report 1977







# Company Profile

In 1903, International Harvester began manufacturing from a single plant at Hamilton, Ontario with 800 employees. Today we have grown to four plants and more than 6500 employees.

Originally our primary products were harvest machines. Today we supply Canada, and the world, with agricultural equipment, trucks, construction and industrial equipment, components and turbo machinery as well as recreational vehicles and power lawn products. All represent advanced engineering, sophisticated manufacturing techniques and strict quality control.

Two-thirds of everything International Harvester manufactures in Canada is exported. In all, we ship to 35 countries. Worldwide acceptance of International Harvester products is the result of our competitive stance in terms of design, quality and price.

For almost three-quarters of a century, the people of International Harvester have been active in the growth of the Canadian economy. We're proud of our participation; and today, we look forward with confidence and enthusiasm to serving the needs of our customers.

## Financial Highlights

(fully consolidated basis)  
(Dollars in thousands)

	1977	1976
Sales	\$875,207	\$712,098
Net Income	\$ 24,761	\$ 20,014
Return on Sales	2.83%	2.81%
Return on Shareholders' Equity*	16.87%	14.42%
Dividends Paid	\$ 8,000	\$ 11,700
Income Retained	\$ 16,761	\$ 8,314
Taxes—Federal, Provincial and Local	\$ 35,788	\$ 29,250
Depreciation and Amortization	\$ 6,254	\$ 6,188
Capital Expenditures	\$ 12,221	\$ 10,849
Long-term Debt	\$154,191	\$120,336
Shareholders' Equity at End of Year	\$163,769	\$147,008
Average Number of Employees (Canada)	6,867	6,556

\*at beginning of the year

*The cover illustrates that International Harvester Canada is in the business of manufacturing power equipment for Canada and the world. Shown are employees assembling Cargostar trucks at the Chatham, Ontario, Plant. It is to all the people of International Harvester Canada that we owe our success.*



**INTERNATIONAL HARVESTER  
CANADA**

General Offices: 208 Hillyard Street, Hamilton, Ontario, L8N 3S5

### Annual Report 1977

The fiscal year ended October 31, 1977

*Ce rapport est publié en français et en anglais.  
Si vous préférez un exemplaire français, veuillez  
écrire au Directeur des Relations publiques de  
la compagnie.*





## Truck

Today, Canada's nearly two million trucks move more than half of everything transportable. Some 14,000 communities are totally dependent on trucks for supply of goods and services.

Key Canadian industries, such as mining, forestry, construction, agriculture, petroleum and transportation count on trucks. An ever increasing number of truck owners rely on International Harvester to meet their needs, because we have made it our priority to work closely with the trucking industry.

This close communication with the trucking industry was evident in the development of the "S" Series of trucks. Six years ago International Harvester asked thousands of owners, drivers and mechanics what they wanted in a new truck. The overwhelming answer was efficiency, durability, economy of operation, and driver comfort.

Following research, design and testing, the medium-heavy duty "S" Series was introduced in 1977. Three basic "S" Series models can be put to work in 61 vocations, offering operators the advantage of trucks built for the job, without the expense of custom building.

The energy efficient, cost efficient "S" Series is the most advanced medium-heavy duty truck on the market today and promises to lead the way into the next decade.

Our British Columbia based subsidiary, Pacific Truck and Trailer, manufactures heavy duty, specialized on/off highway trucks and trailers.

Pacific trucks such as the P500 "Canadian", introduced in 1977, up to the huge P16, can be found operating across Canada, in Alaska, Malaysia, New Zealand and the Philippines. Pacific trucks are at work in Hawaiian sugar cane fields, in Alberta and Libyan oilfields, in the coal fields of British Columbia, the asbestos mines of Quebec and the uranium mines of Wyoming.

Whether it's light, medium, heavy or specialized trucks, International Harvester has the complete line of products to answer the trucking needs of Canada and the world.



*Top: The International Harvester Scout SSII is the company's latest entry in the sports/utility market.*



*Middle: Built in Chatham, Ontario, the Cargostar offers a wide variety of engine, transmission and axle combinations to meet many job requirements.*

*Bottom: Manufactured in North Vancouver, British Columbia, a special service, heavy duty P-12 Pacific truck is shown working in the asbestos mines of Quebec.*



*Facing page: The new "S" Series trucks are the most advanced medium-heavy duty vehicles on the market.*



# Agriculture

Agriculture has always been the most fundamental and vital of vocations. Today, more than ever before, it is a complex business requiring sophisticated management skills.

The trend in Canadian farming is toward larger farms with higher productivity. Modern farm businessmen must work more acres in less time and win a better yield. One way in which this can be accomplished is through the use of increasingly efficient machinery.

Over the years, International Harvester Canada has been leading the way in meeting the machinery needs of farmers.

During 1977, International Harvester introduced the revolutionary Axial Flow combine. The product of 15 years research, design and testing, the Axial Flow offers farmers greater productivity than conventional combines. At the heart of the Axial Flow is a uniquely simple threshing/separating system; and the entire combine has been designed for efficient operation.

In an ongoing program, Canadian farmers were introduced to the efficient "family" concept of tractors, as represented by Series 86. Because many parts are interchangeable among models in the series, savings are gained in both production and maintenance.

Yet another example of improved efficiency is the Forage Harvester manufactured at the Hamilton, Ontario plant. Using a remote control unit, farmers can now operate machine functions from the tractor, thus eliminating time-consuming manual operation.

The worldwide demand for improved farm productivity will steadily increase. International people stand side-by-side with farm businessmen to meet the challenge.



Top: The International Harvester Windrower is one of the many farm products assembled at the Hamilton, Ontario plant.

Middle: Series 86 tractors are available in 11 different models, including four-wheel drive.

Bottom: The Hamilton built 620 Grain Drill features increased seeding capacity and safe, simple 'endwise' transport.

Right: Canadian Farming Magazine is published quarterly in Canada specifically for Canadian farmers.

Facing page: One of the many features of the revolutionary new Axial Flow combine is increased productivity.











## Pay Line

There is work to be done in Canada. In the forest, on the construction site, at the mines, in the oil fields. All of these are key Canadian industries, and no other company provides so many kinds of productive power as does International Harvester.

Demand in these industries may fluctuate, and the demands of the terrain in Canada are often rugged. International Harvester responds to changing demands of the market and of the environment.

Three Canadian built machines, introduced in 1977, represent our involvement with Canada's most fundamental industries.

The 252 Pay Lift was designed to perform a wide variety of industrial jobs. Features of the new Pay Lift include easier service and maintenance, capacity matched hydraulics and an operator deck designed for greater efficiency.

The 530 Pay Loader is new in design and concept, offering a potent combination of power and weight.

A new log skidder in the 100-140 hp. range was introduced to the woodlands industry. Like other skidders manufactured by International Harvester in Candiag, Quebec, the new S10 Pay Logger features excellent traction, operator comfort, reduced maintenance and smooth, power matched handling.

These products represent just three types of power available to key industries. To reach our full potential as a nation, Canada requires peak efficiency from large and small machines, often under severe conditions. International Pay Line has the equipment and people to do the job.

*Top: Built in Candiag, Quebec, the 530 Pay Loader features a sound-suppressing cab and modular construction for easier servicing.*

*Above: The new 252 Pay Lift offers improved efficiency, easier service and maintenance.*

*Facing page: The S10 Pay Logger meets the needs of woodlands operators requiring skidders in the 100 to 140 h.p. range.*









# Development and Training

As International Harvester takes big strides in the development of advanced power equipment, International dealers, distributors and service people, as well as equipment users themselves, must keep pace.

So the dealers, distributors and service personnel are going back to school.

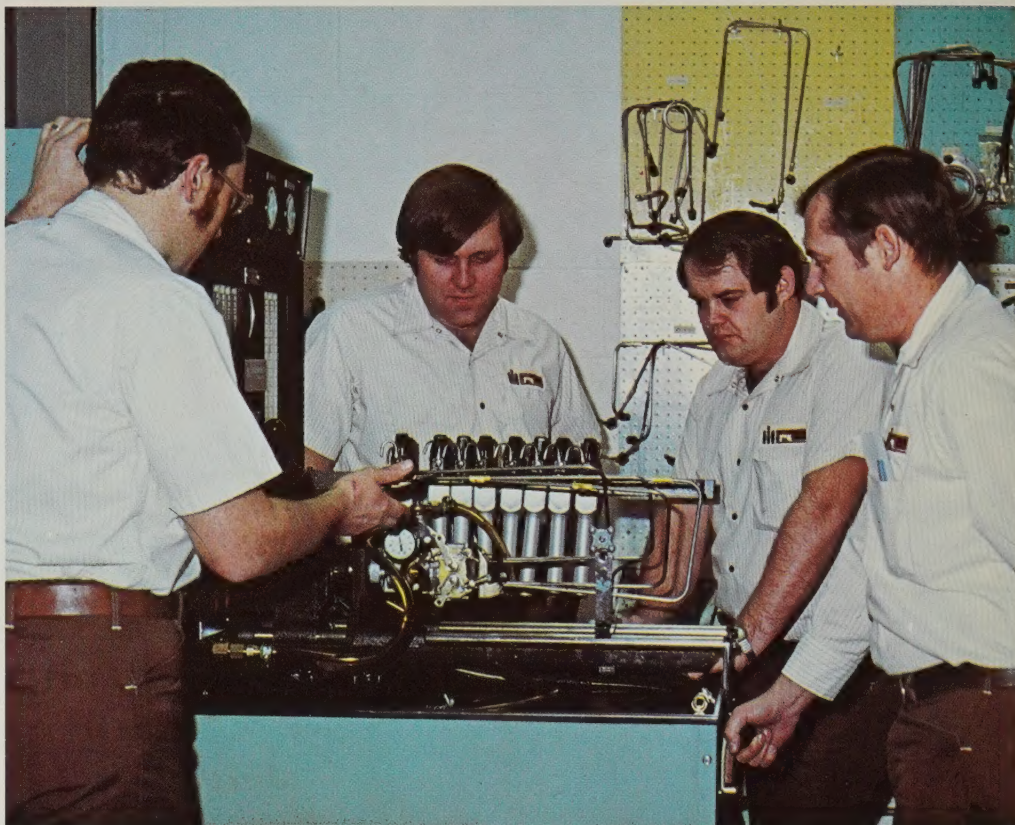
A typical service classroom includes the piece of equipment being studied, a blackboard, service manuals for each student and the tooling required for the job; and, of course, a highly qualified instructor.

This progressive training program features audio-visual techniques which provide dealers with up-to-date information on subjects such as assembly of machines, maintenance and customer service.

A new computer system for service parts inventory management is also available to dealers and distributors, and when used together, these programs help guarantee satisfaction and maximum machine up-time.

Further extension of this training reaches the owner/operator level through effective service clinics at our dealer and distributor base of operation. This then completes the training cycle from the manufacturer through the dealer to the customer.

In addition to technical training, dealers and distributors are given



*Top: International Harvester dealers, distributors and service personnel continually receive intensive training on new equipment and maintenance techniques.*

*Middle: Audio visual presentations provide on-the-job training and refresher courses.*

*Bottom: Dealers and distributors learn the use of the Microfiche parts system as well as many other in-dealership marketing techniques.*

*Facing page: Service personnel receive complete instruction in service and maintenance techniques for all types of equipment on a regular basis.*











instruction in marketing as well as assistance in asset management. A continuing liaison is maintained with the customer so that any problems that may arise can be quickly appraised and efficiently solved.

Our commitment is quite simple. The main contact customers have with our company is through their dealer. So it is only natural that the entire International Harvester organization stand behind him. To his customers and to his community, he is International Harvester.



*Above: The International Scout II is widely accepted in the sports/utility vehicle market.*

*Top: More than 175 employees of International Harvester Canada involved in engineering research and development across Canada.*

*Middle: Standard electrical controls on the Hamilton, Ontario built 720 Forage Harvester have eliminated less efficient cranks, levers and ropes.*

*Bottom: The rugged, economical 100 Crawler Loader is built to meet the challenges of Canada's rugged terrain.*



*Facing page: A Solar Mars 10,000 h.p. range gas turbine compressor operating in Alberta.*





## Solar Turbines

Years ago, our engineers foresaw the need for energy efficient sources of power. Both emerging and developed nations now utilize Solar Turbines for electrical power generation and as pumping units in gas and oil pipeline transportation.

In Canada, Solar units are working in all provinces as emergency standby power for telephone, telegraph, electric utilities and centralized computer centres. Two Solar Saturn generators are being built for cold weather operation at James Bay.

To serve the petroleum industry, Solar Mars turbines are designed specifically for use on pipelines because they are efficient, dependable, and readily transportable to remote areas. The new Mars turbine, working on an Alberta pipeline, will save enough fuel to heat 2700 homes for one year.

In addition to research, development and innovation, the position of Solar as a front runner is based on the fact that Solar products are manufactured and marketed as pre-tested packages.

When placed in the field, the reliability of Solar units is assured. This dependable service is backed by an expanded renewal centre in Edmonton where units can be completely overhauled.

Energy transmission and energy conservation are important to all of us. Solar turbines are meeting the challenges of today and tomorrow.







## President's Letter

The Company experienced another successful year in 1977, with record sales of \$875.2 million, earnings of \$24.8 million, and improved participation in many of the markets we serve. These gains were made despite a soft economy.

The agricultural market, following years of substantial growth, experienced a slight reversal of this trend. Although our central and eastern markets remained favourable, reduced purchases by western farmers as a result of possible poor seeding conditions and lower net income contributed to this reversal. This situation had a strong impact on the demand for large horsepower tractors and tillage machines. Notwithstanding this downward trend, we were able to increase market participation as a result of the fine response to our new Series 86 2-wheel and 4-wheel drive tractors. At the same time we maintained our leadership in grain drills.

For the harvesting of our important grain crops, we introduced this fall a new and revolutionary concept in combining. Our Axial-Flow self-propelled combine incorporates a single rotor system which saves time and increases productivity. Farmer acceptance of this new and unique machine has been exceptional.

This past year has seen a definite change in the market for trucks. As a result of reduced consumer spending and a trend to heavier units, a sizeable drop in demand was experienced for medium-duty units. In this reduced market we improved our participation with our well accepted Loadstar and Cargostar models. On the other hand, with the move on the part of many customers to the use of heavier units and strong replacement market with major long distance highway operators, the industry experienced a good increase in the requirements for heavy-duty vehicles. In this highly important market we continue to be a leader.

Growing interest in outdoor recreation and demand for multi-purpose family vehicles has been a strong stimulant of increased sales for our Scout sport/utility vehicles. We see this trend continuing in the future and fully expect our sales to meet this growth.

Pacific Truck and Trailer, our Vancouver based manufacturing and marketing subsidiary, had an excellent year. This is a direct result of a well-planned diversification of its product line during recent years. Such diversification, from one of serving the woods industry, now includes heavy-duty custom built units for construction, mining, oil fields and many other specialized applications. This opens up new markets in Canada and around the world for these trucks. The outlook for Pacific's growth is very promising.

To the mining, construction, pulp and paper and other resource industries served by Pay Line, new products were introduced from our plant in Candiac, Quebec involving loaders, paylifts and log skidders. These products add to the most diversified line of construction equipment offered to customers in Canada. The market for this line of equipment was

restricted in 1977, mainly as a result of lack of activity in our construction and resource industries. For 1978 we see some encouraging signposts, but overall do not expect much change in present conditions.

The improved activity of our gas and oil industry, together with the continuing requirement of standby power for utilities and other essential industries, is having a favourable effect on the sale of Solar turbines. This year saw the introduction of the new 10,000 hp. Mars unit with installation of the first such turbine in Alberta. To meet the increasing service needs of customers, we have expanded our renewed manufacturing centre in Edmonton.

Export sales continue to be very important to the overall success of our business. We have seen an expansion of our markets this past year with shipments from our Canadian plants of agricultural tillage and harvest machines, Cargostar and Loadstar trucks, as well as logger/skidders. The opportunities for 1978 promise even greater demand.

Looking to the future, a corporate restructuring will direct increased emphasis on communications, human resources and information systems, providing the input to ensure that our strategies and policies are geared to meet the market potentials of the future. This restructuring will also provide more efficient, high level management and marketing services for our dealers and distributors.

Our markets, both domestic and export, continue to be very competitive. In order that we may continue to supply these markets and ensure the ongoing growth of our company, substantial investments continue in engineering research and development as well as in our plants and equipment.

We continue to maintain a long range plan with the ability to react to changing conditions. As we enter our 75th year as a Canadian company, we recognize that there are problems still affecting the growth of our economy and in turn the markets we serve. We are, however, confident that these problems can be overcome and with their solution we look forward to the continued improvement of our business.

To our employees, dealers and distributors, who have made such a strong contribution to our successful year, I express the appreciation of the Board of Directors. I would also like to thank our customers for their continued support in the purchase of our products.



William R. Fleming





Left to Right:  
Edward R. Griffith  
Herbert V. Rose  
William R. Ofield



Left  
Robert L. Gregson  
Bernard Q. Murphy



Left  
Ronald E. Penfold  
John E. Reble

## Directors and Officers

At October 31, 1977

### Board of Directors:

Charles C. Brannan  
William E. Callahan  
Thomas L. Dougherty  
Earle L. Edmonds  
William R. Fleming

### Officers:

William R. Fleming  
*President*  
Herbert V. Rose  
*Vice President, Finance & Administration*  
Bernard Q. Murphy  
*Vice President, Marketing*  
Edward R. Griffith  
*Secretary-Treasurer*  
William R. Ofield  
*Comptroller*

### Other Executives:

Robert L. Gregson  
*Director, Communications & Public Affairs*  
Ronald E. Penfold  
*Director, Technical & Support Services*  
John E. Reble  
*Director, Human Resources*  
John E. Colby  
*Manager, Truck Marketing*  
A. Keith Hibbard  
*Manager, Service Parts*  
T. Donald Husband  
*Manager, Market Development and Facility Planning*  
Charles J. Munro  
*Manager, Agricultural Marketing*  
Donald A. Thorsell  
*Manager, Sales Finance*





# Consolidated Statement of Income and Income Retained

For the Years ended October 31, 1977 and 1976

(Dollars in thousands)

	1977	1976
<b>Sales and Other Revenues</b>		
Sales:		
Canadian operations to—		
Dealers and users in Canada	\$474,260	\$460,311
International Harvester Company	266,991	162,741
Other affiliated companies and jobbers	8,435	3,881
	<u>749,686</u>	<u>626,933</u>
Seddon Diesel Vehicles Limited	125,521	85,165
	<u>875,207</u>	<u>712,098</u>
Finance operations revenue	28,024	25,333
Total Sales and Other Revenues	<u>903,231</u>	<u>737,431</u>
<b>Cost and Expenses</b>		
Cost of sales	755,052	624,665
Marketing and administrative expenses	62,045	51,764
Interest expense		
(including long-term of—1977 \$15,274; 1976 \$12,349)	30,788	28,622
Sundry deductions less other income	7,830	(4,735)
Provision for income taxes:		
Current	19,723	11,998
Deferred	3,032	5,103
Total Costs and Expenses	<u>878,470</u>	<u>717,417</u>
<b>Net Income</b>	<u>24,761</u>	<u>20,014</u>
<b>Dividends Paid</b>	<u>8,000</u>	<u>11,700</u>
<b>Income Retained</b>		
—for the year	<u>16,761</u>	<u>8,314</u>
—at beginning of the year as previously stated	135,549	126,425
adjustment of prior year's net income (note 8)	(3,541)	(2,731)
as restated	<u>132,008</u>	<u>123,694</u>
—at end of the year	<u>\$148,769</u>	<u>\$132,008</u>

*The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.*





# Consolidated Statement of Financial Condition

October 31, 1977 and 1976

(Dollars in thousands)

<b>ASSETS</b>	<b>1977</b>	<b>1976</b>
<b>Current Assets</b>		
Cash and marketable securities	\$ 315	\$ 152
Notes receivable (note 1)	206,473	170,337
Accounts receivable—less allowances	42,198	36,225
Accounts receivable from affiliated companies	829	1,301
Deferred income taxes	—	1,645
Inventories (note 2)	146,645	122,196
Other current assets	3,634	3,934
Total Current Assets	<u>400,094</u>	<u>335,790</u>
<b>Notes Receivable, Long-term</b> (note 1)	146,427	120,496
<b>Property, Plant and Equipment</b>		
at cost, less depreciation & amortization (note 3)	55,001	50,938
Goodwill at cost less amortization	4,211	4,444
<b>Other Assets</b>	6,698	4,720
<b>Total Assets</b>	<u>\$612,431</u>	<u>\$516,388</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness	\$ 6,438	\$ 7,604
Notes payable—banks	23,917	26,690
Notes payable—commercial paper	156,273	126,164
Current maturities of long-term debt	6,106	17,054
Current invoices, payrolls and accruals	75,667	56,857
Accrued taxes	6,603	1,549
Accounts payable to affiliated companies	6,592	1,881
Deferred income taxes	36	—
Total Current Liabilities	<u>281,632</u>	<u>237,799</u>
<b>Long-term Debt</b> (note 4)	154,191	120,336
<b>Deferred Income Taxes</b>	12,839	11,245
<b>Shareholders' Equity</b>		
Capital stock—authorized, issued and fully paid— 150,000 common shares of \$100 par value	15,000	15,000
Income retained	148,769	132,008
Total Shareholders' Equity	<u>163,769</u>	<u>147,008</u>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<u>\$612,431</u>	<u>\$516,388</u>

Approved by the Board: W. R. Fleming, *Director*  
T. L. Dougherty, *Director*

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.





# Consolidated Statement of Changes in Financial Position

For the Years ended October 31, 1977 and 1976

(Dollars in thousands)

	1977	1976
<b>Source of Working Capital</b>		
Net income	\$ 24,761	\$ 20,014
Items not affecting working capital:		
Depreciation and amortization	6,254	6,188
Deferred income taxes	1,594	4,778
Amortization of goodwill	233	337
Working Capital Provided from Operations	32,842	31,317
Property disposals	1,904	3,945
Increase in long-term debt	33,855	6,365
Other – net	–	367
Total Source	68,601	41,994
<b>Application of Working Capital</b>		
Capital expenditures:		
Canadian facilities	11,413	9,989
Equipment for lease	107	202
Seddon Diesel Vehicles Limited	701	658
Total Capital Expenditures	12,221	10,849
Dividends paid	8,000	11,700
Increase in notes receivable long-term	25,931	33,131
Other – net	1,978	–
Total Application	48,130	55,680
<b>Increase (Decrease) in Working Capital</b>	20,471	(13,686)
Working Capital—at beginning of the year	97,991	111,677
– at end of the year	\$118,462	\$ 97,991
<b>Changes in Working Capital</b>		
Current assets—increase (decrease)		
Cash and marketable securities	\$ 163	\$ (246)
Notes and accounts receivable	41,637	5,668
Deferred income taxes	(1,681)	(325)
Inventories	24,449	(11,977)
Other current assets	(300)	3,934
Current liabilities—decrease (increase)		
Bank indebtedness	1,166	(2,242)
Notes payable—banks and commercial paper	(27,336)	3,148
Current maturities of long-term debt	10,948	(8,527)
Current invoices, payrolls and accruals	(18,810)	(5,407)
Accrued taxes	(5,054)	1,457
Accounts payable to affiliated companies	(4,711)	831
<b>Increase (Decrease) in Working Capital</b>	\$ 20,471	\$(13,686)

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.



# Notes to Consolidated Financial Statements

(Dollars in thousands)

	1977	1976
<b>1. Notes Receivable</b>		
Notes receivable—wholesale	\$152,680	\$111,168
—retail	238,939	213,825
Unearned finance charges	(35,563)	(31,441)
Allowance for doubtful notes, deferred discounts and trade allowances	(3,156)	(2,719)
Total Notes Receivable	352,900	290,833
Less current portion	206,473	170,337
Notes Receivable, Long-term	<u>\$146,427</u>	<u>\$120,496</u>
<b>2. Inventories</b>		
Finished goods	\$ 78,362	\$ 70,560
Raw materials and supplies	44,976	35,619
Work-in-process	23,307	16,017
Total Inventories	<u>\$146,645</u>	<u>\$122,196</u>
<b>3. Property, Plant and Equipment</b>		
Buildings, machinery and equipment at cost:		
Manufacturing	\$ 70,234	\$ 64,017
Distribution	19,382	19,960
Other	9,159	9,228
	98,775	93,205
Less accumulated depreciation	54,304	52,558
	44,471	40,647
Tooling and pattern equipment at cost, less amortization	5,396	5,163
Land at cost	5,134	5,128
Net Property	<u>\$ 55,001</u>	<u>\$ 50,938</u>
<b>4. Long-Term Debt</b>		
International Harvester Company of Canada, Limited		
Medium-term Notes, Series A, due 1978 to 1979 with interest at 10½% payable semi-annually	\$ 20,000	\$ 24,000
Subsidiaries		
Senior indebtedness, Series A to D debentures and notes due 1978 to 1993 with interest at rates from 5¾% to 10¼%, payable annually, semi-annually and monthly	110,491	91,503
Subordinated Indebtedness—notes, due 1978 to 1991, with interest at rates from 6% to a specified percentage over the Canadian bank prime rate for commercial loans, payable semi-annually, quarterly and monthly (includes U.S. funds due to affiliates 1977—Nil; 1976—\$6,600,000)	29,800	21,818
Other long-term obligations—7% debenture loan payable to 1991, and a 1978 6% debenture—all secured by subsidiaries' assets	6	69
	160,297	137,390
Less current portion	6,106	17,054
Long-term Debt	<u>\$154,191</u>	<u>\$120,336</u>
The aggregate amount of payments required in each of the next five years to meet sinking fund and retirement provisions of the notes and debentures are: 1978, \$6,106,000; 1979, \$20,600,000; 1980, \$11,600,000; 1981, \$33,000,000; 1982, \$14,000,000. Covenants attached to the 10½% Medium Term Notes, Series A restrict the distribution of earnings subsequent to November 1, 1973 to not more than 60% of consolidated net earnings available for distribution.		
<b>5. Retirements Plans</b>		
The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense for 1977 was \$8,787,000 (1976—\$6,892,000). Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs. Past service pension costs of \$58,680,000 (1976—\$34,820,000) which have not as yet been charged to operations will be amortized over the period to 1989. Approximately \$35,366,000 of these past service costs relate to vested benefits.		
<b>6. Statutory Information</b>		
The remuneration to directors and senior officers as defined in the Business Corporations Act, Ontario, for the year ended October 31, 1977 amounted to \$403,000 (1976—\$461,000).		
<b>7. Contingent Liabilities</b>		
The Company sold certain notes of its finance subsidiary, International Harvester Credit Corporation of Canada Limited, to banks with settlement of these notes guaranteed by the Company.		
<b>8. Changes in Accounting Policy</b>		
Commencing in 1977, the Company adopted the policy of translating foreign currency inventories into Canadian dollars at applicable historical rates. The effect of this change was to reduce 1977 net income by \$1,376,000 net of related income taxes. The effect on 1976 and prior years was not reflected since the adjustment was not considered material.		
The Company also modified its basis for consolidating Retail Notes Receivable to defer customer finance charges waived on a basis consistent with the finance subsidiary. The effect of this change, which has been applied retroactively, was to increase net income for 1977 by \$505,000 and decrease net income for 1976 by \$810,000. The cumulative effect of this change to October 31, 1975 amounted to \$2,731,000 and has been deducted from Retained Earnings as of that date.		
<b>9. Reclassification</b>		
Certain 1976 amounts have been reclassified to conform with the presentation used in the 1977 Financial Statements.		
<b>10. Anti-Inflation Legislation</b>		
Company profit margins, prices, compensation and dividends are subject to the restraints imposed by the Anti-Inflation Act. Management is of the opinion that the Company has complied with this legislation.		



# Summary of Accounting Policies

## Basis of Consolidation

The accompanying financial statements include the accounts of International Harvester Company of Canada, Limited and its wholly-owned subsidiaries, Pacific Truck and Trailer Manufacturing Ltd., Seddon Diesel Vehicles Limited, Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited on a fully consolidated basis.

The Consolidated Statement of Financial Condition contains the assets and liabilities of Seddon Diesel Vehicles Limited at October 31, 1977 and June 30, 1976. The operations of Seddon Diesel Vehicles Limited have been included in the Consolidated Statement of Income and Income Retained based on its results for the 16 month period ended October 31, 1977 and the 12 month period ended June 30, 1976 (see page 15 for details). Investments in co-dealerships are carried at cost.

By way of supplementary information (pages 22 through 25) comparative financial statements for 1977 and 1976 are presented to reflect the results of Canadian manufacturing and trading operations on a basis which the Company considers to be more informative as this information is not available from the consolidated accounts. The Canadian manufacturing and trading subsidiary, Pacific Truck & Trailer Manufacturing Ltd. is consolidated. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited and the finance subsidiaries Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained.

Summarized financial data is set out separately for the major wholly-owned subsidiaries which have not been consolidated—Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited on page 25.

## Foreign Exchange

With the exception of inventories, current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Inventories have been translated at applicable historical rates. Other foreign currency assets and liabilities are translated at the exchange rates prevailing at the time of acquisition. Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation expense is translated at the exchange rates prevailing at the time the related assets were acquired. Gains or losses resulting from exchange rate fluctuations are credited or charged to income currently.

## Inventory Valuation

Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which does not exceed net realizable value and, with respect to labour and overhead, is the cost considered attainable under normal operating conditions.

## Depreciation and Amortization

Depreciation and amortization is generally computed on a straight-line basis over the useful lives of the various classes of properties.

## Deferred Income Taxes

The Company and its subsidiaries recognize the tax effect of each item in the statement of income in the current period regardless of when the tax is paid. Taxes on amounts which affect financial and taxable income in different periods are reported as deferred income taxes.

## Engineering and Research Expenditures

Expenditures for the development of new and improved products are charged to costs as incurred.

# Auditors' Report

## DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world Chartered Accountants

SIXTH FLOOR, FIDELITY EQUITABLE TRUST TOWER  
ONE JAMES STREET SOUTH, HAMILTON, ONTARIO L8P 4R5 416-523-6770

To the Shareholders of  
International Harvester Company of Canada, Limited:

We have examined the consolidated financial statements of International Harvester Company of Canada, Limited as at October 31, 1977 and 1976 and for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements (pages 15 through 19) present fairly the financial position of International Harvester Company of Canada, Limited as at October 31, 1977 and 1976 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis, after restatement for the change in accounting policy described in Note 8 to Consolidated Financial Statements.

Our examination also included the accompanying partially consolidated financial statements as at October 31, 1977 and 1976 and for the years then ended, which are presented as supplementary information to be read in conjunction with the above mentioned consolidated financial statements.

In our opinion, these partially consolidated financial statements (pages 22 through 25) present fairly the financial position of the Company as at October 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, except that they are prepared on a partially consolidated basis, applied on a consistent basis, after restatement for the change in accounting policy described in Note 8 to Consolidated Financial Statements.

December 9, 1977

*Deloitte, Haskins & Sells.*



# Financial Review

## Basis of Review

The financial review presentation is based on the financial data shown as Supplementary Information on pages 22 through 25. This sets out separately the results of Canadian manufacturing and trading operations and presents a more informative report in line with the Summary of Accounting Policies—Basis of Consolidation on page 19. Separate data is displayed on page 25 for the major non-consolidated subsidiaries.

## Sales

Sales of Canadian manufacturing and trading operations for 1977 reached an all time high at \$749,686,000 compared to \$626,933,000 in 1976. Domestic sales in 1977 were 3.7% higher than 1976. The Trucks, Agricultural Equipment and Solar product groups increased significantly while Outdoor Power Products and Pay Line decreased. Canadian produced goods sold to export markets in 1977 of \$275,426,000 showed an increase of 65.3% over 1976 and were the highest in the Company's history.

## Net Income

Fully consolidated net income for 1977 was \$24,761,000 compared to \$20,014,000 for 1976, an increase of 23.7%.

Income of the Canadian manufacturing and trading operations of \$18,050,000 increased 6.1% over 1976.

Return on sales dropped from 2.7% in 1976 to 2.4% in 1977 as increased revenues did not keep pace with increased costs and expenses. The restraints imposed under the anti-inflation program on prices and profits have continued to prevent the Company from maintaining margins. Compliance measurements under the regulations combined with depressed market conditions in some areas have restricted price increases to the degree that the Company has not been able to fully recover increased costs in some product lines.

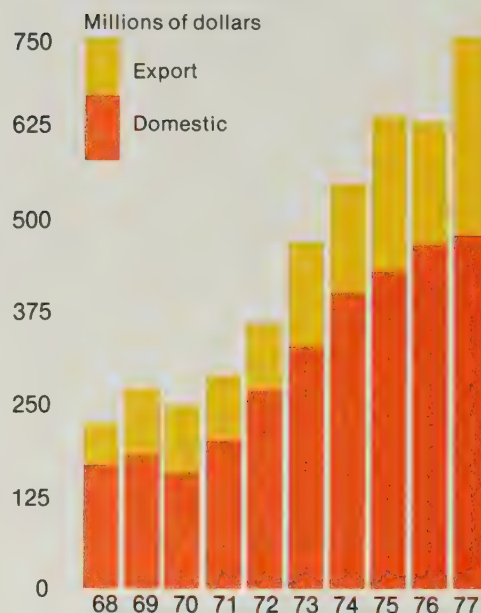
Earnings of our major finance subsidiary, International Harvester Credit Corporation of Canada Limited of \$5,933,000 for 1977 increased 11.0% over 1976 and were an all time high. High volume of business and lower interest rates in 1977 compared with 1976 account for the substantial increase.

Net income of Seddon Diesel Vehicles Limited for 1977 of \$632,000 resulted from a sixteen month period ending October 31, 1977 compared to a net loss of \$2,388,000 for a twelve month period ending June 30, 1976.

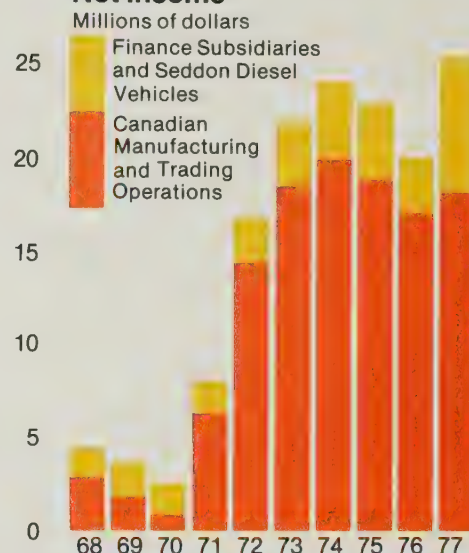
Adoption of the policy to translate foreign currency inventories into Canadian dollars at applicable historical rates in 1977 (note 8) combined with a strengthening of the British pound in relation to the Canadian dollar throughout the year resulted in the 1977 exchange loss of \$1,523,000. In 1976 the effect of the weakening of the British pound on translation of inventories into Canadian dollars more than offset the other translation gains resulting in the exchange loss of \$943,000.

## Sales

### Canadian Manufacturing and Trading Operations

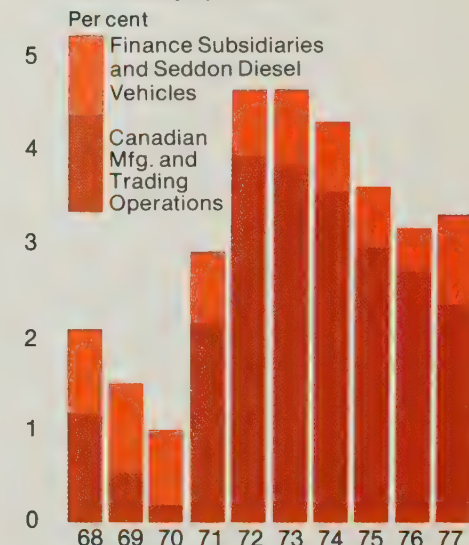


## Net Income



## Return on Sales

### Canadian Manufacturing and Trading Operations

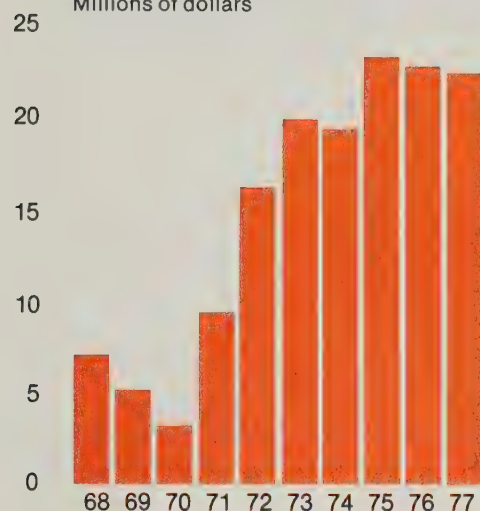




## Working Capital

Provided from Canadian Manufacturing and Trading Operations

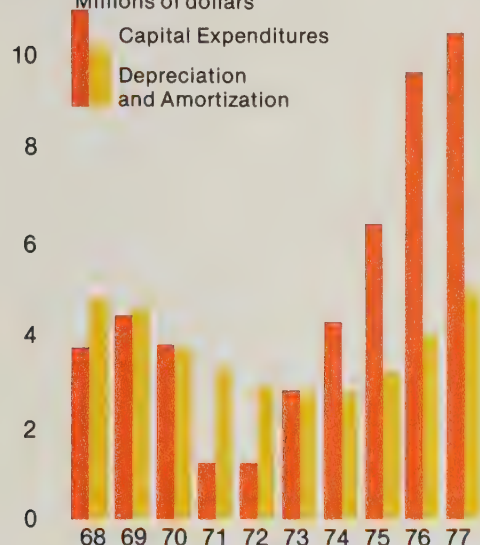
Millions of dollars



## Capital Expenditures and Depreciation and Amortization

Canadian Manufacturing and Trading Operations

Millions of dollars



## Inventory and Assets

Millions of dollars



## Inventories

Canadian inventories of finished goods, raw materials and supplies and work-in-process were \$116,831,000 in 1977 compared to \$105,494,000 in 1976, an increase of 10.75%.

Inventories are summarized by major classifications as follows:

	1977	1976
	(Dollars in thousands)	
Finished goods	\$ 71,033	\$ 64,628
Raw materials and supplies	33,554	30,829
Work-in-process	12,244	10,037
Total Inventories	<u>\$116,831</u>	<u>\$105,494</u>

## Property, Plant and Equipment

Capital expenditures of the Canadian manufacturing and trading companies totalled \$10,383,000 for 1977 fiscal year as compared to \$9,593,000 for the previous year. Commitments on appropriations in progress at October 31, 1977 approximated \$3,481,000. The continuing success of our Company dictates a commitment to increased productivity. The Company's investment plans continue to be dedicated to the modernization of facilities and subsequent improvement in overall productivity.

Property, plant and equipment by major classes are as follows:

	1977	1976
	(Dollars in thousands)	
Buildings, machinery and equipment at cost:		
Manufacturing	\$ 63,442	\$ 57,199
Distribution	17,949	17,989
Other	778	563
	<u>82,169</u>	<u>75,751</u>
Less accumulated depreciation	<u>50,376</u>	<u>48,576</u>
	<u>31,793</u>	<u>27,175</u>
Tooling and pattern equipment, at cost less amortization	4,322	3,688
Land at cost	<u>1,712</u>	<u>1,749</u>
Net Property	<u>\$ 37,827</u>	<u>\$ 32,612</u>

## Employment

The Company's average employment in Canada in 1977 was 6,867 compared to 6,556 in 1976. Compensation paid to employees in 1977 was \$107,475,000 of which \$94,995,000 was paid for time worked and \$12,480,000 was paid for vacations and statutory holidays. In addition, approximately \$17,989,000 was paid for insurance, medical and pension plans and other fringe benefits.

Comparable 1976 compensation was \$95,603,000 of which \$84,763,000 was for time worked and \$10,840,000 was for vacations and statutory holidays. In addition, approximately \$14,845,000 was paid for fringe benefits in 1976.



# Supplementary Information

This presentation sets out separately the results of Canadian manufacturing and trading operations by showing the financial position and results of International Harvester Company of Canada, Limited and Pacific Truck & Trailer Manufacturing Ltd. on a consolidated basis. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited and in the finance subsidiaries, Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained. Summarized financial data is set out separately for the major wholly-owned subsidiaries that have not been consolidated—Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited on page 25.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED

(on a partially consolidated basis)

## Statement of Income and Income Retained

For the Years ended October 31, 1977 and 1976

(Dollars in thousands)

	1977	1976
<b>Sales and Other Revenues</b>		
Sales:		
Dealers and users in Canada	\$474,260	\$460,311
International Harvester Company	266,991	162,741
Other affiliated companies and jobbers	8,435	3,881
Total Sales	<u>749,686</u>	<u>626,933</u>
<b>Costs and Expenses</b>		
Cost of sales	647,536	538,710
Marketing and administrative expenses	50,362	44,105
Charges for financing services on wholesale notes sold to finance subsidiary	13,470	12,004
Interest expense (including long-term of—1977—\$2,339; 1976—\$2,605)	4,533	4,820
Sundry deductions less other income	1,524	(2,548)
Provision for income taxes:		
Current	15,342	10,610
Deferred	(1,131)	2,215
Total Costs and Expenses	<u>731,636</u>	<u>609,916</u>
<b>Income—Canadian Manufacturing and Trading Operations</b>	18,050	17,017
<b>Income—Canadian Finance Subsidiaries</b>	6,079	5,385
<b>Income—Total Canadian Operations</b>	24,129	22,402
<b>Income (Loss)—Seddon Diesel Vehicles Limited</b>	632	(2,388)
<b>Net Income</b>	<u>24,761</u>	<u>20,014</u>
<b>Dividends Paid</b>	8,000	11,700
<b>Income Retained</b>		
—for the year	16,761	8,314
—at beginning of the year as previously reported	135,549	126,425
adjustments of prior year's net income (note 8)	(3,541)	(2,731)
as restated	132,008	123,694
—at end of the year	<u>\$148,769</u>	<u>\$132,008</u>

The accompanying Summary of Accounting Policies, Notes 5 through 10 inclusive and the Financial Review are an integral part of this statement.





## Statement of Financial Condition

October 31, 1977 and 1976

(Dollars in thousands)

<b>ASSETS</b>	<b>1977</b>	<b>1976</b>
<b>Current Assets</b>		
Cash	\$ 102	\$ 152
Accounts receivable—less allowances	16,032	25,770
Accounts receivable from affiliated companies	198	247
Notes and accounts receivable from finance subsidiaries	14,923	7,583
Deferred income taxes	1,426	951
Inventories (page 21)	116,831	105,494
Other current assets	2,811	2,996
Total Current Assets	152,323	143,193
<b>Equity in Canadian Finance Subsidiaries</b>	42,607	37,208
<b>Equity in Seddon Diesel Vehicles Limited</b>	20,216	19,584
<b>Property, Plant and Equipment</b> at cost, less depreciation and amortization (page 21)	37,827	32,612
<b>Other Assets</b>	5,405	4,047
<b>Total Assets</b>	<u>\$258,378</u>	<u>\$236,644</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness	\$ 6,173	\$ 7,409
Notes payable—banks	5,860	9,500
Current maturities of long-term debt	2,006	4,036
Current invoices, payrolls and accruals	48,661	42,909
Accrued taxes	4,643	703
Accounts payable to affiliated companies	6,490	1,641
Total Current Liabilities	73,833	66,198
<b>Long-term Debt</b>	18,000	20,006
<b>Deferred Income Taxes</b>	2,776	3,432
<b>Shareholders' Equity</b>		
Capital stock—authorized, issued and fully paid— 150,000 common shares of \$100 par value	15,000	15,000
Income retained	148,769	132,008
Total Shareholders' Equity	163,769	147,008
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$258,378</u>	<u>\$236,644</u>

Approved by the Board: W. R. Fleming, *Director*  
T. L. Dougherty, *Director*

The accompanying Summary of Accounting Policies, Notes 5 through 10 inclusive and the Financial Review are an integral part of this statement.





INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED  
(on a partially consolidated basis)

## Statement of Changes in Financial Position

For the Years ended October 31, 1977 and 1976

(Dollars in thousands)

	1977	1976
<b>Source of Working Capital</b>		
Income—Canadian manufacturing and trading operations	\$ 18,050	\$ 17,017
Items not affecting working capital:		
Depreciation and amortization	4,762	4,022
Deferred income taxes	(656)	1,361
Other	111	111
Working Capital Provided from Canadian Manufacturing and Trading Operations	22,267	22,511
Property disposals	406	374
Other—net	—	1,823
Total Source	22,673	24,708
<b>Application of Working Capital</b>		
Capital expenditures	10,383	9,593
Decrease in long-term debt	2,006	4,036
Dividends paid	8,000	11,700
Purchase of shares of International Harvester Credit Corporation of Canada Limited	—	3,000
Other—net	789	—
Total Application	21,178	28,329
<b>Increase (Decrease) in Working Capital</b>	1,495	(3,621)
Working Capital—at beginning of the year	76,995	80,616
—at end of the year	\$ 78,490	\$ 76,995
<b>Changes in Working Capital</b>		
Current assets—increase (decrease)		
Cash	\$ (50)	\$ (246)
Accounts receivable	(2,447)	(13,935)
Deferred income taxes	475	(854)
Inventories	11,337	(952)
Other current assets	(185)	2,996
Current liabilities—decrease (increase)		
Bank indebtedness	1,236	(2,193)
Notes payable—banks	3,640	22,650
Current maturities of long-term debt	2,030	(3,001)
Current invoices, payrolls and accruals	(5,752)	(6,883)
Accrued taxes	(3,940)	(167)
Accounts payable to affiliated companies	(4,849)	(1,036)
<b>Increase (Decrease) in Working Capital</b>	\$ 1,495	\$ (3,621)

The accompanying Summary of Accounting Policies, Notes 5 through 10 inclusive and the Financial Review are an integral part of this statement.



# Summarized Financial Data—Major Non-consolidated Subsidiaries

October 31, 1977 and 1976  
(Dollars in thousands)

## SEDDON DIESEL VEHICLES LIMITED

### Net Sales

### Net Effect on Consolidated Income (Loss)

Seddon's net income (loss) (includes unrealized exchange loss on translation of \$1,523,000 in 1977 and \$943,000 in 1976)

Consolidation adjustments

Net Effect on Consolidated Income (Loss)

### Summary Statement of Financial Condition

#### Assets

Cash

Accounts and notes receivable—net

Inventories

Property, plant and equipment at cost, less depreciation

Other

Total Assets

#### Liabilities

Bank indebtedness

Notes, accounts payable and accruals

Long-term debt

Deferred income taxes

Total Liabilities

### Shareholders' Equity

Capital stock

Income retained

Total Shareholders' Equity

### Total Liabilities and Shareholders' Equity

1977  
16 Months Ended  
October 31, 1977

\$125,521

\$ 349

283

\$ 632

\$ 39

10,983

29,221

10,057

6,648

\$ 56,948

\$ 7,992

25,320

6,741

3,332

43,385

3,997

9,566

13,563

\$ 56,948

1976  
12 Months Ended  
June 30, 1976

\$ 85,165

\$ (1,652)

(736)

\$ (2,388)

\$ 7

6,464

15,766

12,043

7,462

\$ 41,742

\$ 5,001

12,599

7,407

3,513

28,520

3,997

9,225

13,222

\$ 41,742

## INTERNATIONAL HARVESTER CREDIT CORPORATION OF CANADA LIMITED

### Net Income (before consolidation adjustments)

### Summary Statement of Financial Condition

#### Assets

Notes receivable—net

Deferred income taxes

Prepaid interest and other assets

Total Assets

#### Liabilities

Notes payable within one year

Notes and accounts payable to parent company

Current maturities of long-term debt

Other current payables and accruals

Long-term debt

Deferred income taxes

Total Liabilities

### Shareholders' Equity

Capital stock

Income retained

Total Shareholders' Equity

### Total Liabilities and Shareholders' Equity

1977

\$ 5,933

\$368,949

1,445

4,296

\$374,690

\$157,863

14,857

4,100

11,193

136,191

8,430

332,634

13,000

29,056

42,056

\$374,690

1976

\$ 5,344

\$297,122

593

4,046

\$301,761

\$130,800

7,598

13,051

6,925

100,303

6,311

264,988

13,000

23,773

36,773

\$301,761





# Statistical Data

(fully consolidated basis) Dollars in millions

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
<b>SALES BY AREA OF FINAL SALE</b>										
Canadian Operations										
Canada	\$474.3	460.3	425.2	399.4	338.3	266.7	202.2	159.2	185.3	169.0
United States	268.0	163.4	190.0	145.2	125.2	93.0	74.2	88.7	74.5	51.7
Europe and Africa	3.0	1.3	5.5	1.1	1.6	1.9	.6	.4	.3	.9
Latin America	1.1	.9	1.6	1.3	.7	.9	.3	1.0	1.1	.7
Pacific Area	3.3	1.0	5.9	1.0	1.0	1.2	1.7	.5	.6	.9
	<u>749.7</u>	<u>626.9</u>	<u>628.2</u>	<u>548.0</u>	<u>466.8</u>	<u>363.7</u>	<u>279.0</u>	<u>249.8</u>	<u>261.8</u>	<u>223.2</u>
Seddon Diesel Vehicles Limited	125.5	85.2	84.5	—	—	—	—	—	—	—
Total	<u>\$875.2</u>	<u>712.1</u>	<u>712.7</u>	<u>548.0</u>	<u>466.8</u>	<u>363.7</u>	<u>279.0</u>	<u>249.8</u>	<u>261.8</u>	<u>223.2</u>
<b>NET INCOME</b>										
Amount	\$ 24.8	20.0	22.6	23.6	21.9	17.1	8.2	2.4	3.8	4.6
Return on sales	2.83%	2.81	3.17	4.31	4.69	4.70	2.94	.96	1.45	2.06
Return on shareholders' equity at beginning of year	16.87%	14.42	17.29	19.87	20.52	17.43	8.90	2.66	4.26	5.34
DEPRECIATION AND AMORTIZATION	\$ 6.3	6.2	5.6	4.9	4.8	4.0	3.4	3.7	4.5	4.6
TAXES—										
FEDERAL, PROVINCIAL AND LOCAL	\$ 35.8	29.3	33.7	45.7	43.0	34.2	24.0	14.1	16.0	14.8
CAPITAL EXPENDITURES	\$ 12.2	10.8	10.8	20.0	8.5	6.1	3.1	3.8	4.3	3.7
<b>SHAREHOLDERS' EQUITY</b>										
AT END OF YEAR										
Capital stock	\$ 15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Income retained	148.8	132.0	123.7	115.7	103.8	91.7	83.1	77.1	75.2	74.2
Total shareholders' equity	<u>\$163.8</u>	<u>147.0</u>	<u>138.7</u>	<u>130.7</u>	<u>118.8</u>	<u>106.7</u>	<u>98.1</u>	<u>92.1</u>	<u>90.2</u>	<u>89.2</u>
<b>REPRESENTED BY</b>										
Current assets	\$400.1	335.8	338.8	294.3	214.1	178.0	159.0	140.0	143.2	125.2
Less: Current liabilities	<u>281.6</u>	<u>237.8</u>	<u>227.1</u>	<u>224.0</u>	<u>138.2</u>	<u>111.4</u>	<u>89.6</u>	<u>94.0</u>	<u>92.0</u>	<u>70.6</u>
Working capital	118.5	98.0	111.7	70.3	75.9	66.6	69.4	46.0	51.2	54.6
Net property	55.0	50.9	50.2	45.9	31.6	28.3	27.0	29.0	29.5	29.8
Notes receivable—long-term	146.4	120.5	87.4	77.7	61.5	51.1	38.1	43.1	34.1	29.5
Other assets	10.9	9.2	9.9	9.8	4.4	4.3	4.5	4.1	1.7	2.0
Total	<u>330.8</u>	<u>278.6</u>	<u>259.2</u>	<u>203.7</u>	<u>173.4</u>	<u>150.3</u>	<u>139.0</u>	<u>122.2</u>	<u>116.5</u>	<u>115.9</u>
Less:										
Long-term debt	154.2	120.3	114.0	71.7	54.6	43.5	40.4	29.5	26.0	26.1
Deferred income taxes	12.8	11.3	6.5	1.3	—	.1	.5	.6	.3	.6
Total	<u>167.0</u>	<u>131.6</u>	<u>120.5</u>	<u>73.0</u>	<u>54.6</u>	<u>43.6</u>	<u>40.9</u>	<u>30.1</u>	<u>26.3</u>	<u>26.7</u>
Total net assets	<u>\$163.8</u>	<u>147.0</u>	<u>138.7</u>	<u>130.7</u>	<u>118.8</u>	<u>106.7</u>	<u>98.1</u>	<u>92.1</u>	<u>90.2</u>	<u>89.2</u>
<b>NUMBER OF EMPLOYEES</b>										
AVERAGE (CANADA)	6,867	6556	7120	7144	6510	5667	4812	5828	6189	6363

Prior years' figures have been restated in accordance with Note 8 to Consolidated Financial Statements.







